

reduction in the EEC average tariff provides only about half this price reduction potential as a means of expanding export volume from the United States into the EEC.

Over and above the difference in potential price reductions stemming from the differences in tariff reduction, there is an important difference in size of market to which these reductions apply. The U.S. domestic petrochemical market is larger than the European market. Therefore, with a larger potential reduction in price applicable to this larger market, the European competitive producer has improved his export position vis-a-vis the United States to a greater extent than a U.S. company in the reverse direction. Of course, this result could be influenced in a major way to the extent that U.S. tariff levels remaining after the 50 percent reduction provide a sufficiently high barrier to prevent the entry of competitive European products.

Although not a part of the Kennedy Round itself, another economic change in Europe will have a significant influence on the competitive position of American exporters attempting to compete in EEC countries. This is the EEC tax harmonization program involving the switch from the so-called "cascaded" turnover tax to the value-added system known as TVA.

Under the old turnover tax system in these EEC countries, there was a border tax imposed on imports which, in general, amounted to the same turnover tax percentage rate imposed on one transaction of a domestic producer. Since even the most integrated domestic producer was involved in more than one transaction, the average "cascaded" turnover tax which he paid was higher than the border tax.

With the change to TVA, most indirect taxes, including border taxes, will arrive at one uniform percentage of approximately 15 percent. This means that the impact of the tax harmonization program will place U.S. producers exporting to the EEC at a clear disadvantage over their European competitors. The effect ranges from a maximum of about 5.6 percent on selling price in the case of Belgium down to an actual gain of about one percent in the case of Italy, the one country where the border tax was higher than the "cascaded" turnover tax on the domestic producer.

There are many misconceptions about the effect of the change in EEC tax systems upon the importer, and for that reason we made a thorough investigation in Europe of their implications for Union Carbide exports into the EEC. Attached as Appendix No. 1 is a detailed description of the changes in European tax systems, together with our findings as to the probable effect on our competitive position as an exporter into the EEC.

V. The UCC Study

Although we believe that the developments and conditions outlined previously in this statement would qualitatively have an adverse effect on the operations of UCC over the next several years, we considered it important to attempt to quantify these effects financially. Therefore, we undertook a detailed study of all of these influences, both positive and negative, which appeared to impinge upon our situation. Because our chemicals business involves more than 400 individual products, a really definitive quantitative analysis, covering both the effect on our domestic business as well as our overseas activities, represents a massive undertaking, even with the benefit of computerization which we are utilizing extensively. Appendix No. 2 discusses in detail the principles and assumptions which we used and provides a breakdown of the quantitative findings of the effect in Europe and other major export markets. Major elements or aspects of the study were:

1. Potential effect of Kennedy Round tariff reductions and the improved EEC export rebate with respect to our domestic business in the environment of substantial excess capacity on the part of our European competitors. This involved a full consideration, by the "business teams" responsible, of the market position of our major chemical products under the changed economic environment. (As explained previously, specific dollar findings have been omitted here.)

2. Potential effect of tariff reductions by other countries on our export business.

3. Potential effect of the change in border tax on exports into EEC countries resulting from the change from the "cascade" turnover system to the TVA method.

4. The effect of increased export tax rebate on exports from the EEC to third countries.

5. Changes in pricing, particularly in Germany, the first country to switch from the "cascade" turnover tax to the TVA method.